

**CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2007**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Litchfield TIFA	County HILLSDALE
Fiscal Year End 6/30/07	Opinion Date 10/15/07	Date Audit Report Submitted to State 12/10/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) OSBOURNE, MARCH, CONDON & CO., P.C.		Telephone Number 517-439-9331	
Street Address 184 W. CARLETON ROAD, HILLSDALE, MI 49242		City HILLSDALE	State MI
		Zip 49242	
Authorizing CPA Signature 		Printed Name STEPHEN W. BISHER	License Number 1101026492

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Tax Increment Financing  
Authority Board  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activity and major fund activity of the Tax Increment Financing Authority, a component unit of City of Litchfield, Michigan, as of June 30, 2007, and for the year then ended. The component unit financial statements are the responsibility of the Tax Increment Financing Authority management, a component unit of City of Litchfield, Michigan. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund activity of the Tax Increment Financing Authority, a component unit of City of Litchfield, Michigan, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages iii through vi are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007, on our consideration of the Tax Increment Financing Authority's, a component unit of City of Litchfield, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
October 15, 2007

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis  
Year Ended June 30, 2007

The following discussion and analysis of the financial performance for the City of Litchfield, Michigan Tax Increment Finance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Authority's financial statements.

**Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2007:

- Property taxes are the Authority's single, largest source of revenue. The Authority captured millages of the City of Litchfield, Hillsdale County, and Litchfield District Library on \$34,194,460 of the total taxable value for fiscal year ending June 30, 2007, which represents a decrease of approximately \$2,769,500 or 7.5 percent. The decrease was primarily due to personal property depreciation and disposals in the Tax Increment Finance Authority district.
- Other expenses decreased approximately \$174,000 or 83 percent primarily due to more property tax refunds to taxpayers resulting from State Tax Commission and Tribunal adjustments in the prior year.
- The Authority contributed to the City of Litchfield, Michigan \$4,700 more than it did in the previous year. The additional monies were contributed towards administrative services and capital outlays.
- Development expense decreased approximately \$192,500 or 69.5 percent from the previous year primarily due to more housing and industrial park expansion projects in the prior year.

**Using the Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis  
Year Ended June 30, 2007

**The Authority as a Whole**

The following table shows, in a condensed format, the net assets as of the current in comparison to prior year:

	Governmental Activities	
	2007	2006
Assets		
Current assets	\$ 2,025,654	\$ 1,952,915
Noncurrent assets	<u>2,345,127</u>	<u>1,820,915</u>
Total Assets	<u>\$ 4,370,781</u>	<u>\$ 3,773,830</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities	<u>\$ 12,807</u>	<u>\$ 198,756</u>
Net Assets:		
Invested in capital - no related debt	\$ 614,721	\$ 299,600
Unrestricted	<u>3,743,253</u>	<u>3,275,474</u>
Total Net Assets	<u>\$ 4,357,974</u>	<u>\$ 3,575,074</u>
Total Liabilities and Total Net Assets	<u>\$ 4,370,781</u>	<u>\$ 3,773,830</u>

The Authority's combined net assets increased by approximately 21 percent from a year ago; from \$3.57 million to \$4.35 million.

The increase in unrestricted net assets of approximately \$467,000 was anticipated and will be used for development in the City of Litchfield, Michigan industrial park and housing projects.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis  
Year Ended June 30, 2007

The following table shows the changes of the net assets during the current year in comparison to prior year:

	Governmental Activities	
	2007	2006
Revenue		
General Revenue:		
Property taxes	\$ 543,570	\$ 564,056
Interest	97,191	105,324
Rental income	33,000	33,000
Total Revenue	\$ 673,761	\$ 702,380
Program Expenses		
Development	\$ 84,574	\$ 277,081
Contributions to primary government	225,000	220,300
Depreciation	6,300	6,300
Other	46,408	210,309
Total Program Expenses	\$ 362,282	\$ 713,990
Change in accounting estimate	\$ 150,000	\$
Change in Net Assets	\$ 461,479	\$ (11,610)

**Governmental Activities**

In fiscal year 2007, decreases experienced in property taxes resulted primarily from personal property depreciation and disposals in the Tax Increment Financing Authority district. A 0.15 increase in the millage rate of Hillsdale County was the only change in operating millage rates that the Authority captures.

As expected, revenues exceeded expenditures to further develop the industrial park and housing for anticipated community growth in the upcoming years beyond the anticipated revenues for those years. In 2006 and 2007 the Authority continued carrying out various development projects through out the City of Litchfield.

**Operating Highlights**

The Authority accounts for all development costs it incurs. The budget in recent years has been developed to continue carrying out a variety of development projects. The Budget is developed based on those planned development costs. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 10 percent of budgeted amounts.



CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis  
Year Ended June 30, 2007

**Capital Asset and Debt Administration**

At the end of fiscal year 2007, the Authority had approximately \$614,700 (net of depreciation) invested in land and a building that it leases to a local manufacturing business. There is no related infrastructure (that is not under development) reported in the year end net capital investment. Any infrastructure developed would be capitalized and depreciated by the City of Litchfield, Michigan.

At June 30, 2007 the Authority did not carry on its financial books any outstanding debt obligations.

**Economic Factors and Next Year's Budgets and Rates**

The City of Litchfield's current economic outlook in the short term is stable; thus avoiding any necessity in raising millage rates. A recent adoption of the State of Michigan Budget has indicated that state revenue sharing will remain flat and unchanged from the 2006-2007 levels. Uncertainty in the overall regional economy lends for conservative and cautious budgeting. It is anticipated the city will see minor growth in residential, commercial and industrial sectors.

Through a State of Michigan, Department of Transportation program, the City of Litchfield will participate in a streetscape project. This project will require several city funds accounts to contribute to the city's share of the project.

During the 2007-2008 fiscal year, certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance and liability insurance.

Certain businesses located within the Tax Increment Financing Authority jurisdiction are in the process of appealing their previous year's tax assessments. While no decisions have been made it is undetermined the amount of financial impact this will have on future budgets. Continuous recruitment of businesses will help insure continued success in the City of Litchfield's employment force.

Positive relationships with other boards and commissions will provide stream-lined success.

The Authority will continue the industrial park and housing expansion projects during the upcoming fiscal year.

There were no significant variances between budget and actual results.

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City of Litchfield, Michigan, we welcome you to contact the City of Litchfield's administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Current Assets:	
Cash	\$ 1,293,489
Investment	609,239
Interest receivable	24,693
Note receivable, current portion	<u>98,233</u>
Total Current Assets	<u>\$ 2,025,654</u>
Noncurrent Assets:	
Note receivable, net of current portion	\$ 730,010
Investment in land	191,056
Land and infrastructure development	809,340
Capital assets	712,244
Less: accumulated depreciation	<u>(97,523)</u>
Total Noncurrent Assets	<u>\$ 2,345,127</u>
TOTAL ASSETS	<u><u>\$ 4,370,781</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	<u>\$ 12,807</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 614,721
Unrestricted	<u>3,743,253</u>
Total Net Assets	<u>\$ 4,357,974</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,370,781</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
GOVERNMENTAL ACTIVITY EXPENSES	
Development	\$ (84,574)
Contributions to primary government	(225,000)
Professional fees	(10,068)
Depreciation	(6,300)
Other	(36,340)
	<u>                    </u>
TOTAL GOVERNMENTAL ACTIVITY EXPENSES	<u>\$ (362,282)</u>
GENERAL REVENUE	
Property taxes, captured for operations	\$ 543,570
Interest	97,191
Lease income	33,000
	<u>                    </u>
TOTAL GENERAL REVENUES	<u>\$ 673,761</u>
SIGNIFICANT ITEM	
Change in accounting estimate	<u>\$ 150,000</u>
CHANGE IN NET ASSETS	<u>\$ 461,479</u>
NET ASSETS - BEGINNING	\$ 3,575,074
PRIOR PERIOD ADJUSTMENT	<u>321,421</u>
NET ASSETS - BEGINNING, RESTATED	<u>\$ 3,896,495</u>
NET ASSETS - ENDING	<u><u>\$ 4,357,974</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2007

ASSETS	
Cash	\$ 1,293,489
Investments	609,239
Interest receivable	<u>14,495</u>
TOTAL ASSETS	<u>\$ 1,917,223</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	<u>\$ 12,807</u>
Fund Balance:	
Unreserved, undesignated	<u>\$ 1,904,416</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,917,223</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2007

GOVERNMENTAL FUND BALANCE		\$	1,904,416
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds			
The cost of the capital assets is	\$	712,244	
Accumulated depreciation is		<u>(97,523)</u>	
			614,721
Notes and accounts receivable are expected to be collected in future years and are not available to pay for current year expenditures			838,441
Investments in land are not a current financial resource and are not reported in the funds			<u>1,000,396</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>4,357,974</u></u>	

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## TAX INCREMENT FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGETARY COMPARISON - GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Property taxes	\$ 540,811	\$ 542,392	\$ 543,847	\$ 1,455
Interest	56,929	79,433	80,572	1,139
Sale of land			6,000	6,000
Lease income	33,000	33,000	33,000	
Loans collected			12,927	12,927
TOTAL REVENUES	<u>\$ 630,740</u>	<u>\$ 654,825</u>	<u>\$ 676,346</u>	<u>\$ 21,521</u>
EXPENDITURES				
Development	\$ 2,032,000	\$ 747,071	\$ 348,773	\$ 398,298
Contributions to primary government	215,000	225,000	225,000	
Professional fees	12,000	8,795	10,068	(1,273)
Other	56,820	28,111	36,340	(8,229)
TOTAL EXPENDITURES	<u>\$ 2,315,820</u>	<u>\$ 1,008,977</u>	<u>\$ 620,181</u>	<u>\$ 388,796</u>
OTHER FINANCING SOURCES				
Change in accounting estimate	<u>\$</u>	<u>\$</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>
NET CHANGE IN FUND BALANCE	\$ (1,685,080)	\$ (354,152)	\$ 206,165	\$ 560,317
FUND BALANCE - BEGINNING	<u>1,698,251</u>	<u>1,698,251</u>	<u>1,698,251</u>	
FUND BALANCE - ENDING	<u>\$ 13,171</u>	<u>\$ 1,344,099</u>	<u>\$ 1,904,416</u>	<u>\$ 560,317</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$	206,165
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental Funds report capital outlays as expenditures, and in the Statement of Activities these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense		(6,300)
Collection of long-term receivables is revenue in governmental funds. However, in governmental activities, cash collections reduce long-term receivables		(5,390)
Receipts collected on the sale of investment in land is revenue in governmental funds. However, in governmental activities, cash collected on the sale of land reduces investment in land		(6,000)
Uncollected interest on long-term receivables is not recorded in governmental funds but is accrued as revenue in governmental activities		8,805
Investment in land is an expenditure in governmental funds. However, in governmental activities, the investment is capitalized and recognized as an expenditure when sold		264,199
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>461,479</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tax Increment Financing Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Tax Increment Financing Authority (the "Authority") is organized and incorporated as authorized by and pursuant to the Tax Increment Finance Authority Act, P.A. 450 of 1981, as amended. The Authority is a component unit of the City of Litchfield, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Litchfield, Michigan.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Authority. Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue. Note, during the year, the Authority did not receive any program revenues.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL  
STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives the cash.



CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Authority's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The Authority's Board submits to the City of Litchfield's City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by City of Litchfield's City Council. The budget is adopted at the fund level.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2007.

PROPERTY TAX

The City of Litchfield, the primary government, bills and collects property taxes and distributes them to the Authority. Properties are assessed as of December 31, and the related real property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property taxes to the City by June 30. Subsequently, the City remits to the Authority the portion of delinquent real property taxes due to it. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

CAPITAL ASSETS

Capital assets, which include land and buildings, are reported in the government wide financial statements. The Authority defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 2 years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend an assets life are not capitalized but rather expensed in the period incurred.

Buildings are depreciated using the straight-line method over a fifty year period.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BANK DEPOSITS AND INVESTMENTS

Cash includes cash on hand, demand deposits, savings, and certificate of deposits. Investments include municipal mutual funds that are highly liquid.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions. The Authority is covered under the City of Litchfield's commercial insurance as a coinsurer for general liability for the aforementioned risks.

There have been no reported claims to the commercial insurance with respect to the Authority in any of the past three years. Additionally, there were no reductions in coverage's obtained through the City of Litchfield's commercial insurance during the past year.

NOTE 2: BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The breakdown between deposits and investments for the Authority is as follows:

Cash (checking accounts, savings accounts and certificates of deposits)	\$ 1,293,489
Investment in a money market fund	<u>609,239</u>
Total	<u>\$ 1,902,728</u>

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 2: DEPOSITS AND INVESTMENTS (CONCLUDED)

Deposits

The Authority's deposits were reflected in the accounts of the bank at \$1,814,315. Of that amount, \$405,075 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Authority. As of June 30, 2007, the Authority's investment in a money market fund, totaling \$609,239, was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form. The Authority believes that its investment in the money market fund is in compliance with Public Acts 196 of 1997. The money market fund is registered with the SEC.

NOTE 3: INVESTMENT IN LAND AND INFRASTRUCTURE DEVELOPMENT

Investment in land represents land developed by the Authority for residential housing and industrial expansion. The Authority anticipates selling the land to developers. Additionally, TIFA is investing in the development of infrastructure in the new residential housing complexes. When the development is complete the infrastructure will be contributed to the City of Litchfield at which time it will be capitalized and depreciated in the financial books of the City.

NOTE 4: LONG-TERM NOTES RECEIVABLE

In the 2005-2006 fiscal year the Authority loaned \$100,000 to Newco Industries, Inc. for improvements to the Company's newly acquired operating facility. The terms of the loan require interest only payments commencing on February 1, 2006 through January 1, 2007. Effective February 1, 2007 the Company is required to pay the Authority minimum monthly installments of \$1,700, which includes interest at the rate of 5.0% per annum, through January 31, 2010 at which time any remaining principal is due in full.

\$ 100,000

In the 2004-2005 fiscal year the Authority loaned \$500,000 to Newco Industries, Inc. to acquire land and building located in City of Litchfield. The terms of the loan require the Company to repay the Authority \$400,000 in monthly installments of \$3,680, which includes interest at the rate of 2.0% per annum, effective July 22, 2005 through June 21, 2015; the remaining \$100,000 was forgiven by the Authority as a grant.

374,033

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE 4: LONG-TERM NOTES RECEIVABLE (CONCLUDED)

During the year the Authority loaned an additional \$6,935 to Payseno Builders, a construction contractor, for cost incurred in the construction project of condominiums in City of Litchfield. The terms of the loan require the contractor to repay the Authority \$5,000 on the sale of each condominium until the full amount borrowed is repaid, interest free. Since the condominiums will be sold on unknown dates imputed interest is indeterminable. \$ 109,324

During the year the Authority loaned \$250,000 to Michigan Rebuild and Automation, Inc. (MRA), for the acquisition of its manufacturing facility. The terms of the loan require the company to pay monthly installments of \$1,849, which includes interest at a rate of 4% per annum, effective March 8, 2007 and through December 31, 2016, at which time the remaining principal balance plus any accrued interest is due and payable. 244,886

\$ 828,243

Less: current portion of notes receivable 98,233

TOTAL LONG-TERM NOTES RECEIVABLE \$ 730,010

	<u>7/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/07</u>
Newco 1/31/10	\$ 100,000	\$	\$	\$ 100,000
Newco 6/21/15	374,592		559	374,033
Payseno	102,389	6,935		109,324
MRA		<u>250,000</u>	<u>5,114</u>	<u>244,886</u>
	<u>\$ 576,981</u>	<u>\$ 256,935</u>	<u>\$ 5,673</u>	<u>\$ 828,243</u>

Following is the maturity schedule of outstanding notes receivable:

	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008		\$ 98,233	\$ 29,464	\$ 127,697
2009		52,100	17,135	69,235
2010		153,200	13,229	166,429
2011		54,400	11,831	66,231
2012		55,600	10,417	66,017
2013-2016		305,386	27,500	332,886
Thereafter		<u>109,324</u>		<u>109,324</u>
		<u>\$ 828,243</u>	<u>\$ 109,576</u>	<u>\$ 937,819</u>

The Payseno Builders note is reported as thereafter since the date of collection is indeterminable.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE 5: CHANGES IN FIXED ASSETS

A summary of capital assets of the Authority activities was as follows:

	<u>Balance 7/01/06</u>	<u>Additions</u>	<u>Disposals &amp; Adjustments</u>	<u>Balance 6/30/07</u>
Assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Capital assets being depreciated:				
Building	<u>315,000</u>	<u>362,244</u>	<u>          </u>	<u>677,244</u>
	<u>\$ 350,000</u>	<u>\$ 362,244</u>	<u>\$</u>	<u>\$ 712,244</u>
Accumulated depreciation:				
Building	<u>\$ 50,400</u>	<u>\$ 47,123</u>	<u>\$</u>	<u>\$ 97,523</u>
Net Capital Assets	<u>\$ 299,600</u>	<u>\$ 315,121</u>	<u>\$</u>	<u>\$ 614,721</u>

NOTE 6: LEASES

The Authority leases property to a local manufacturer for \$2,750 per month renewable annually. At year ended June 30, 2007, the Authority recognized lease revenue in the amount of \$33,000.

NOTE 7: SIGNIFICANT ITEM

In 2006 the Authority recorded an estimated liability in the amount of \$150,000 for the potential repayment of captured property taxes from schools. However, during the current fiscal year the Authority's legal counsel determined that the Authority had a legal basis for capturing school property taxes. As a result the Authority is reporting an increase in net assets at June 30, 2007 for the change in accounting estimate in the amount of \$150,000.

NOTE 8: PRIOR PERIOD ADJUSTMENT

In fiscal year 2004 the Authority contracted an independent appraiser to value a building it owned in the industrial park to comply with GASB #34 implementation requirements since original cost information was unavailable. During the current year management performed a study that determined the original cost of the building at \$677,244. As a result management increased the net carrying value of the building in the amount of \$321,421 comprised of an increase in the cost of \$362,244 and an increase in accumulated depreciation of \$40,823.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2007

NOTE 9: CONTINGENCIES

In October 2006 a local company filed a personal property tax appeal with the State of Michigan Tax Tribunal disputing that the City of Litchfield captured taxes on behalf of the Authority on some of its personal property in error for the tax years 2004 and 2005. As of August 31, 2007 the Tax Tribunal had not issued an opinion on the company's claim. If the Tax Tribunal rules in favor of the company it is estimated that the Authority would have to pay back the company approximately \$30,000 to \$40,000. However, in light of the facts and circumstance surrounding the taxes levied on the personal property, management does not believe the estimated amounts will be owed. As a result management has not recorded a provision for a contingent liability in its June 30, 2007 financial statements.

## OTHER REPORTS



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## **GAO GOVERNMENT AUDITING STANDARDS REPORT**

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Tax Increment Financing Authority Board  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the financial statements of the governmental activity and fund information of the Tax Increment Financing Authority, a component unit of City of Litchfield, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Tax Increment Financing Authority's, a component unit of City of Litchfield, Michigan, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Authority's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tax Increment Financing Authority's, a component unit of City of Litchfield, Michigan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended for the information of the Tax Increment Financing Authority Board, City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
October 15, 2007



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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October 15, 2007

To the Tax Increment Financing Authority Board  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the financial statements of the City of Litchfield Michigan Tax Increment Financing Authority Board for the year ended June 30, 2007, and have issued our report thereon dated, October 15, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Budget information presented in the financial statements and a change in estimate for contingent liability relating to captured taxes from schools were the only estimates/ change in estimates noted during our audit.

3. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

6. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants